



AIR TRACTOR INC.

940-564-5616

P. O. BOX 485

940-564-2348 (FAX)

OLNEY, TEXAS 76374

October 27, 2006

The Honorable Bill Thomas
Chairman
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Charles Grassley
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Re: Comments to Tax Technical Corrections Act of 2006 (H.R. 6264 and S. 4026)

Dear Chairmen Thomas and Grassley:

Air Tractor, Inc. ("AT") is a small business located in Olney, TX. AT manufactures agriculture and forestry fire bombing airplanes and has been in business since 1972. We are a small business with employment of approximately 180 people. In addition to selling our products domestically, AT also sells aircraft internationally.

We urge the Committee to reconsider Sec. 7 of the proposed legislation, which addresses the tax treatment of IC-DISCs. This section as written would bring about substantive (and we believe negative) changes to the areas of small business, U.S. trade policy, U.S. trade deficit, job creation and operates as a tax increase. In view of the wide spectrum of categories impacted, Sec. 7 as currently proposed is much more than a technical correction. Since we believe that Sec. 7 is much broader than a technical correction, we request that it be pulled from the technical corrections legislation. If consideration of this section is something that Congress desires to undertake, then we respectfully submit that this consideration should be careful and in-depth deliberation afforded new legislation, and that affected companies like ours be given more opportunity for input.

Our comments on the major issues that make this section much more than a technical correction are as follows:

-Small Business. Since many of the IC-DISC mechanisms operate through a Subchapter S corporation, by definition Sec. 7 is for the most part a small business issue. Exporting

for small business is an important but expensive proposition. Sec. 7 would make this proposition more expensive.

-U.S. Trade Policy. Through WTO rulings, U.S. exporters have lost the availability of DISCs, FSCs, and ETI. The IC-DISC remains the lone mechanism that the WTO has not ruled against and in fact, has specifically let stand. Sec. 7 effectively neuters this remaining, approved WTO mechanism.

-U.S. Trade Deficit. In the month of August 2006, the U.S. Department of Commerce announced a record monthly trade deficit of \$69.9 Billion (second straight monthly "record"). Our country is on target for an annual trade deficit in excess of \$800 Billion – unfortunately another "record". The IC-DISC by definition applies to small-medium enterprises ("SME") that engage in exporting. Our country should be working hard to reduce the trade deficit. Enactment of Sec. 7 takes away another tool of the exporter and works counterproductive to trade deficit reduction.

-Job Creation. Research indicates that companies that began trading internationally between 1993 and 2001 had about five times the employment growth of other companies. Companies that stopped trading during this period actually lost jobs. Additionally, virtually all of the Fortune 1000 companies are active international traders already, but less than 10% of the nation's small companies export. With 96% of the world's consumers living outside of the U.S., with global communications rapidly shrinking the world community, and with trade deficits threatening our future economic stability, this disappointing overall export performance by smaller companies is something our nation can no longer afford. Sec. 7 is a negative impact on SMEs that are exporting or wish to export. Legislation should be enacted to stimulate job growth – not the opposite.

-Tax Increase. Sec. 7 does not appear to address any specific, perceived abuse or situation that would give rise to a need for a technical correction. Sec. 7 operates as a straight tax increase.

Sec. 7 negatively impacts the issues noted above. Each issue alone has substantive economic effects. Collectively, the economic effects are amplified (in a negative way). Sec. 7 of the bill addresses "technical corrections" to the Jobs and Growth Tax Relief Reconciliation Act of 2003. In that context it is instructive to examine the House committee reports for that 2003 legislation. House Committee Report (H.R. Rep. No. 108-94) as related to Code Sec. 1(h), Code Sec. 163(d), Code Sec. 854 and Code Sec. 85c states in the Reason For Change, "The Committee believes it is important that tax policy be conducive to economic growth. The Committee believes that reducing the individual tax on dividends lowers the cost of capital and will lead to economic growth and the creation of jobs."

Further in the Reasons For Change, the Committee reached the following conclusion, "It is through such investment that the United States' economy can increase output, employment, and productivity."

Sec. 7 of the current proposed legislation was classified as a technical correction. However, as noted above the enactment of Sec. 7 would have a negative impact across a broad economic range. The Reasons For Change of the legislation that Sec. 7 are proposing to "technically correct" is very clear that the 2003 Act was keyed to increasing economic growth and creation of jobs. This puts Sec. 7 directly opposed to the reasons for enactment of the 2003 and renders the term "technical correction" dubious relative to the original legislation.

In the Description of the Tax Technical Corrections Act of 2006 prepared by the staff of the JOINT COMMITTEE ON TAXATION (dated October 2, 2006, page 10), a justification for the proposed change is linked to IRC 246(d). Sec. 246(d) references "dividend from a corporation which is a DISC or former DISC..." Sec. 246(d) was added to the law in 1971. Much has changed in the economic and exporting landscape in the ensuing 35 years. As noted, the WTO recently ruled against DISCs, FSCs and ETI. The IC-DISC (which was created in 1984) is one of the few mechanisms to stimulate exporting left standing today. Fundamentally, the operation of today's IC-DISC (which was created 13 years after 246(d) was added) in the current economic environment is much different than the DISCs addressed in 1971. This further reinforces our assertion that today's Sec. 7 is much more than a technical correction. Sec. 7 has broad (and negative) impacts. We urge that Sec. 7 be eliminated from a technical corrections bill.

Thank you for your consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read "David A. Ickert", written in a cursive style.

David Ickert
Vice President - Finance